

The revised assumptions show the overall reserve level increased to \$5.9 billion from the \$4.7 billion estimated on January 28, 2009. The computation and impact of the revised reserve level will be discussed later in this letter.

Maintenance of Liquidity

As discussed by NCUA in various public forums surrounding the corporate stabilization effort, the key short-term objective has been, and remains, to increase liquidity in corporate credit unions. The increased liquidity reduces the likelihood of having to sell the securities at adverse prices in the current non-functioning market. This avoids the scenario of absorbing significantly higher losses now, versus the cost of holding the securities to maturity.

Recent trends indicate that liquidity in the entire corporate credit union system is improving and external borrowings are being repaid. Since the first phase of the stabilization action, liquidity in the corporate credit unions holding the majority of the distressed securities has improved with deposits increasing from \$59.1 billion to \$71.3 billion. At the same time, credit unions are utilizing the Credit Union System Investment Program (CU SIP) to provide funding to corporate credit unions. As a result, a significant portion of the corporate credit union system's external borrowings has been paid, which was one of the early objectives of the stabilization plan. Since January 28, external borrowings in the same corporate credit unions have declined from \$11.8 billion to \$2.1 billion.¹ This is a direct reflection of the cooperative spirit of the credit union system. Despite this increase, the foundational stresses on liquidity in the system remain and seasonal trends could result in liquidity becoming short in the near term. NCUA urges the credit union community to continue placing excess liquidity in corporate credit unions so the positive momentum continues. This remains a critical piece to the success of the stabilization and resolution effort while minimizing the cost to natural person credit unions.

Analysis Performed and Impact on the Reserve and Cost to Credit Unions

NCUA continues to perform its own analysis of the securities and has contracted with a third party to provide independent confirmation and refinement of the results of NCUA's assessment. The results confirm NCUA's analysis that potential credit losses on all securities could approach upwards of \$16 billion, with a most reasonable estimate in the current environment of \$10.8 billion. NCUA modeled the impact on each corporate credit union. The modeling shows the losses at U.S. Central and WesCorp present immediate capital concerns to a level necessitating the action by NCUA to assume control of the two institutions.

The additional analysis provides a higher degree of confidence in key assumptions and estimates NCUA used to determine the amount of the liability the NCUSIF must record as part of the stabilization action. The key assumptions impacted are the amount of potential credit loss on the securities and the likelihood of having to perform on the NCUSIF share guarantee.

¹ The funds that remain outstanding to external lenders have a significant prepayment penalty that offsets the risk of retaining these borrowed funds.

The model NCUA is using to determine the liability remains unchanged, but the assumptions have been adjusted using this more definitive information.

The revised total liability for the NCUSIF increases from \$4.7 billion to \$5.9 billion using the updated assumptions. This increased reserve comes at an additional cost to all credit unions. The results will translate into an additional charge per credit union of 10 basis points of earnings and 9 basis points of net worth on average.

If your credit union has already reflected the stabilization expense on the financial statements, the accounts will need to be adjusted for the increase in the NCUSIF's recorded liability estimate. The individual expense for the stabilization action should be calculated based on insured shares of \$100,000 in two parts:

- 1) Multiply insured shares as of December 31, 2008, by 0.30% to arrive at the projected **premium** expense.
- 2) Multiply insured shares as of December 31, 2008, by 1% to arrive at the NCUSIF Deposit. Multiply the NCUSIF Deposit by 69% percent to arrive at the revised **impairment** expense. Previously, this was estimated at 51% of the deposit.

Refer to Accounting Bulletin 09-1 issued in February 2009 for more details.

Next Steps

As discussed earlier, the risk of loss to the NCUSIF is primarily concentrated in U.S. Central and WesCorp. To protect the interests of the NCUSIF and all credit unions, NCUA has conserved both institutions. This provides NCUA with full control of the current and future operation of both entities. Services offered by both corporate credit unions will continue uninterrupted.

During the coming weeks and months, NCUA will continue to take whatever action is necessary to minimize the adverse impact of the U.S. financial and economic turmoil on credit unions. In relation to the corporate credit union system, NCUA plans the following:

- A. Seek ways to reduce the cost impact on the credit union community from the stabilization action;
- B. Determine the least cost alternative to absorb the losses within the system;
- C. Explore alternate methods to manage the distressed assets held by the corporate credit unions; and
- D. Restructure the existing corporate system based on input from stakeholders and future safety and soundness considerations.

Conclusion

NCUA believes the plans established and the actions taken present the least cost alternative to the credit union community under the current legal authority and requirements. NCUA's primary goal is to minimize the adverse impact on natural person credit unions and their members so credit unions remain a vibrant and healthy sector of the U.S. financial system. The current plan NCUA has in place provides the framework for minimizing the financial impact on credit unions and allows the credit union industry control of several of the variables, including the level of liquidity in the system.

The NCUA Board remains committed to working with the credit union community to find alternatives to minimize the impact on credit unions. The Board is open to any alternative that is legal, responsible, and reasonable. Under the current legal authority and system structure, NCUA remains firm in its belief the actions taken represent the least cost alternative and least disruption to the overall credit union and U.S. financial system.

Sincerely,

/s/

Michael E. Fryzel
Chairman